

Memorandum



City Manager

TO: Mayor and City Council

FROM: Will Manley, City Manager, ext 8884

DATE: December 31, 2003

RE: 1% Range Adjustment

As a result of the 14 million dollar revenue loss that we experienced in the recent recession, we were not able to budget a cost of living adjustment for either the 03/04 fiscal year or the 04/05 fiscal year. This was the first time in 30 years that we were not able to provide a cost of living adjustment (see Attachment A).

We were, however, able to continue moving employees through their salary ranges with their yearly 5% step increases. Employees who are at the top of their ranges did not receive any raise last July. These employees constitute a third of our work force. They were dealt a double blow with the increase in retirement withholdings mandated by the State. As a result, their take home pay actually declined significantly (see attachment B). My problem in addressing this situation, quite frankly, has been a lack of money. A 1% cost of living adjustment costs the City over a million dollars (\$875,000 in the general fund). That is money that we simply do not have. Our revenues have increased in the past few months but not nearly by that much. Therefore, I came up with a pay plan that provides a salary range adjustment without having a significant immediate budgetary impact. This plan has the support of the five employee groups (Tempe Employees Council, Tempe Supervisors Council, Tempe Officers Association, Firefighters Union, and the Senior Management Team). Here are the general principles of the plan:

1. All employee raises will be capped at 5% per year (with the exception of promotions and reclassifications). This is a significant change from past years when employees could receive a 5% step increase plus a sizable cost of living increase. For instance in 1986, many employees received an 11% salary increase. In 2001, they received a 9% increase.
2. COLA's (Cost of Living Adjustments) will be eliminated and replaced with range adjustments.
3. 5% step increases will be given in July at the beginning of the fiscal year.
4. Range adjustments will be given in the middle of the fiscal year.
 - a. The maximum of every employee's range will be increased by the amount of the range adjustment.
 - b. Only those employees who received a salary increase in the fiscal year that was less than the amount of the range adjustment will receive an immediate raise as a result of the range adjustment.

The intent of this plan is twofold: 1) To keep all our salary ranges competitive by adjusting them upward every year, and 2) To try to provide some kind of pay raise to all employees. Specifically here is how the plan will be applied this year:

1. Effective February 8, 2004, all salary ranges will be increased by 1%.
2. Employees who received less than a 1% raise this past July and who are now “topped out,” will get an immediate 1% increase in their paychecks as a result of this range adjustment.

Cost

The cost of this 1% range adjustment will be approximately \$150,000 to the current budget. Based on the current revenue and expenditure trends, we can absorb this cost without dipping into our contingency fund.

Recommendation

This pay plan was approved by the Finance Committee at its December meeting. City management recommends that we adopt this plan for tight economic times.

Attachment A:

COST OF LIVING INCREASE

YEAR – Fiscal Year (July to July)	MARKET ADJUSTMENT
1970	10%
1971	5%
1972	4%
1973	5%
1974	8.50%
1975	6%
1976	7%
1977	5.50%
1978	7.50%
1979	7%
1980	10%
1981	9%
1982	7%
1983	4%
1984	4.50%
1985	6%
1986	3%
1987	2%
1988	1%
1989	3%
1990	1%
1991	1%
1992	2%
1993	2%
1994	2%
1995	3.50%
1996	2.50%
1997	3%
1998	3%
1999	3.50%
2000	3%
2001	4%
2002	3.50%
2003	0%

Attachment B:

Impact of the Increase in the ASRS rate

Example of an employee making \$40,000 per year.

Old ASRA rate (pre-July 1) \$806.00 per year

New ASRA rate (July 1) \$2080 per year